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C O N F I D E N T I A L SECTION 01 OF 03 TAIPEI 000227

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STATE FOR EAP/TC,
STATE PASS TO USTR FOR STRATFORD, ALTBACH, AND BOLLYKY,
USDOC FOR 4431/ITA/MAC/AP/OPB/TAIWAN/JDUTTON

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SUBJECT: TAIWAN ECONOMIC MINISTER OPTIMISTIC ON TIFA AND
ECONOMY

Classified By: AIT Director Stephen Young for reasons 1.5 (b) and (c)

Summary

1. (C) Minister of Economic Affairs Steve Chen reminded AIT Director January 26 his major goal is a bilateral FTA, but he is more than willing to pursue a robust TIFA agenda in the nearer term. He promised some points on the Bilateral Investment Agreement in a few days, welcomed our decision to engage on a bilateral GPA, and committed to working with us on outstanding IPR problems. Chen was upbeat about economic performance for 2007, believing that strong consumption and investment rates will keep growth at about the same level as last year. End Summary.

2. (SBU) On January 26, AIT Director Young called on Minister of Economic Affairs Steve Chen (Ruey-long). When the Director asked how Chen was enjoying the job, he replied with a laugh "I'm exhausted," but eagerly jumped into a lengthy discussion of the full range of economic issues and optimistic forecasts. Chen was accompanied by Franco Huang, Director General of the Bureau of Foreign Trade (BOFT) and staff. Director Young was accompanied by EconOff.

U.S. Appreciates Export Controls, Megaports Cooperation

3. (SBU) The Director first thanked Taiwan for its excellent cooperation on export control issues, which Taiwan manages under the direction of BOFT. The Director said the U.S. is pleased to help Taiwan enhance its export control regime. He cited the export control seminar on advanced licensing sponsored by AIT that concluded on January 26, which will be followed by about one seminar per month through August. Chen noted that MOEA encourages the necessary interagency cooperation and recognizes the importance of export control measures. The Director said the Megaports and CSI initiatives are true success stories in bilateral cooperation.

Both Sides Committed to Progress on TIFA

14. (C) The Director noted that both Deputy USTR Karan Bhatia and AUSTR Tim Stratford were pleased with Stratford's December visit to Taiwan. They are planning for the U.S. to host the next round of Trade Investment Framework Agreement (TIFA) talks later this year, but are not yet ready to discuss timing. Bhatia does not exclude the possibility of visiting Taiwan later this year, and Frank Lavin, Undersecretary of Commerce, and a senior USDA figure might also be prepared to visit, the latter in connection with an inaugural CCA (Consultative Committee on Agriculture) meeting.

15. (C) The Director and Minister Chen reviewed the status of the three main agreements progressing under the TIFA process:

-- Bilateral Tax Agreement - The Director noted the U.S. side needs to make the next move and is currently involved in interagency discussions on the issue.

-- Bilateral Investment Agreement - Chen stated that Taiwan was nearly ready to provide AIT with comments on the draft agreement. The non-paper was on his desk and Chen said the non-paper raised five points, including two very minor issues. He expected to pass this non-paper to the U.S. side in the next couple of days.

-- Government Procurement Agreement - Although the U.S. had hoped Taiwan would accede to the GPA in the WTO, the U.S. is ready to engage Taiwan on a bilateral GPA, the Director said. Specifics will be forthcoming shortly, and he asked that the Minister please inform Vice Premier Tsai. Chen replied that a bilateral would be even more advantageous to U.S. firms. He added that Taiwan is telling the EU that a bilateral GPA

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could be discussed in terms of an FTA.

He Had Hoped for FTA - We Both Hope for Doha

16. (SBU) Chen added with a smile that he had hoped the U.S. and Taiwan would be discussing an FTA, not a GPA. He expected trade promotion authority (TPA) would be extended, at a minimum, to allow the Doha round to continue. The Director replied that even if TPA was not extended Doha would remain a U.S. priority. The Director noted that Agriculture Secretary Johanns told him earlier this month that President

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Bush is still committed to Doha and that Taiwan will be a key player in any reinvigorated Doha round.

IPR Legislation Important, so is Pushing Ministry of Education

17. (SBU) The Director reiterated U.S. support for pending legislation regulating peer-to-peer (P2P) file sharing as well as legislation establishing Taiwan's Intellectual Property Court. He noted that there had been some confusion regarding a letter from Amcham which had asked the Legislative Yuan to delay action on IPR legislation until there was time for industry to comment. Although broadly written, this letter was an attempt to delay a specific bill which would expand compulsory licensing for patents, an issue of great concern to industry and to AIT. Chen was aware of the incident. He stated that MOEA would "do its best" to make sure both the IP Court and P2P legislation pass as soon as possible. He anticipated that these two bills would pass in March, after the Chinese New Year holiday.

18. (SBU) The Director also noted that the Special 301 Review evaluation process had commenced and that AIT would be talking with various stakeholders and working closely with the Taiwan Intellectual Property Office (TIPO), which falls under the MOEA. Chen hoped that Taiwan could be removed from the Watch List this year, claiming that as Taiwan remains on the list year after year in spite of substantial progress in

IPR enforcement, there is less and less interest on the Taiwan side in enhancing cooperation.

¶9. (SBU) Director Young asked that MOEA help with the Ministry of Education, which has not been responsive to U.S. concerns about IPR protection on campus and on TANet, the ministry's island-wide computer network. Chen replied that he would seek more action on both issues, although he believed that fewer textbooks are being copied illegally. He noted that the MOE had agreed to add IPR protection to the criteria for evaluating school performance, which should cause university administrators to take more interest in IPR issues.

Confident the Budget will Pass

¶10. (SBU) Chen was confident that the government's budget will pass, if not in special session (Note: This did not happen.), then when the Legislative Yuan reconvenes after Chinese New Year. Even if the budget does not pass immediately, the government still can still function by using previously approved funding. Director Young said the uncertainty and political fighting over the budget will affect the military procurement bill. Further delay calls into question Taiwan's commitment, particularly in the face of an unambiguous military build up by the PRC. Our hope, continued the Director, is for the Executive Yuan to work with the Legislative Yuan to move forward on a supplemental budget to raise Taiwan's defense spending to 2.85% of GDP in 2007, up from the current 2.4% and re-insert funding for patriot missiles.

¶11. (SBU) Chen reassured the director that even on the last day of the legislative session on January 19, the National Security Council was trying to insert a supplemental budget, but the chaos on the floor (Note: which included locking the Speaker out of the Chamber, demonstrations on the floor, and fisticuffs among legislators. End note.) prevented any

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legislative business moving forward.

Optimistic for 2007 Economy

¶11. (U) Chen predicted that 2007 would be "a good year for Taiwan" in economic terms, estimating that economic growth would be slightly lower than in 2006 (Note: 2006 real GDP growth is currently projected to be 4.4%). This year, Chen stated the economy will get a boost from domestic consumption. Last year consumption was dampened by an overhang of credit card debt now largely resolved and the unusual appearance of two "ghost months" in the Chinese lunar calendar. Superstitious shoppers avoid major purchases such as cars and homes during this time. Chen pointed out consumer confidence is up, boosted in part by the rising local stock market. He also forecast private sector investment will be as good as or better than last year and was optimistic about continued export growth. Low inflation, helped by the drop in oil prices, would also help. The high-tech sector was still very strong.

Limited impact of Rebar Case

¶12. (SBU) Chen stated that the Rebar case would have limited impact on the economy, but did express concern about any increase in unemployment caused by the collapse of weak parts of the business group. He noted that some of the businesses, such as the Idee Department Store chain and a cement company, were in good financial shape. Others, such as the aluminum and petrochemical businesses, were on far shakier ground. It was possible, he speculated, that foreign investors might purchase some of the Rebar assets, in particular the Asia Pacific Telecom Group which controls some sought-after licenses.

¶13. (SBU) The Vice Premier, according to the Director, noted a possible silver lining to the Rebar case: the case may stimulate second tier financial reforms. Chen hoped that the U.S. would expel Wang You-theng, founder of Rebar Group, who is currently in the U.S. The Director assured Chen that the U.S. Department of Justice was working with its Taiwan counterparts reviewing this case.

"Small, but Steady Steps" on Cross-Strait Policy

¶14. (C) Turning to cross-strait economic policy, Director Young praised Chen for relaxing investment restrictions on semiconductor production of semiconductors with feature size of 0.18 microns in China. This was a positive step, he said, even though this is already old technology. Firms in Taiwan are currently talking about bringing into production 45 nanometer (.045 micron) chips, the director noted. Chen responded that Taiwan was taking "small, but steady steps" on cross-strait economic issues and expected that within 6 months to one year MOEA would be looking at approving investment in manufacturing of 0.13 micron chips in China.

Comment

¶15. (C) Chen is still firmly committed to bilateral economic engagement with the U.S. While FTA is still his goal, he is ready to move forward in the near term on the full range of TIFA issues. Lower-level MOEA contacts tell AIT that MOEA is planning to suggest making TIFA even more robust by creating new task forces or working groups under the TIFA umbrella to aggressively pursue TIFA goals, in the hopes, of course, of bringing Taiwan a few steps closer to an eventual FTA.
YOUNG